"CYCLICAL PROBLEMS IN CANADIAN POST-WAR READJUSTMENT"

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AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS IN THE GRADUATE SCHOOL OF THE UNIVERSITY OF ILLINOIS, 1942

URBANA, ILLINOIS

1942

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Throughout the course of this—the Second World War—the United Nations have had little time to devote to a consideration of the postwar world. The nations arrayed against the Axis Powers have been more or less continuously on the defensive. Some nations have been conquered and occupied; other have been able to forestall invasion only by the Grace of God and the mistakes of Hitler. At the root of the continuing defeats of the Allied nations (except in the case of Russia) has been one fundamental error, an error characterized by journalists as that of "too little and too late". Not only was Hitler's Germany (and other Axis nations) given a "head-start" of several years in the race to prepare for war, but, during the actual conduct of the war, the error of "too little and too late"—in preparation, in defense, and outside the armed services—has contributed to loss after loss, to disaster after disaster. In a word, inadequate planning and preparation on our side has led the Allied nations to the brink of disaster—for two years we have done little more than survive.

In this study we advance, in effect, the fundamental argument that a continuance of the philosophy making for a "too little and too late" policy will be equally disastrous in connection with economic planning for the postwar period. Not all nations, of course, have the opportunity to do much planning of this sort—those, for instance, overrun by the invader, those for whom exiled governments speak, perhaps inadequately. Canada, however, is in a far more fortunate position. During the first three years of the war she has suffered no invasion, no bombing of her cities, no serious losses in armed manpower (casualties in all branches i. e. deaths, are little more than 2,000 men). Doubtless her losses will be far greater before the war is brought to a successful conclusion. Nevertheless, few nations have as good an opportunity as Canada to plan adequately and scientifically, wherever possible, for her postwar economic future. Admittedly, there are many unknown factors in the situation, but, at the same time, there are many factors which are either known or

can be estimated fairly well. Many of the future problems are already quite evident. Moreover, Canada has undertaken in this war, controls over her economic system that were undreamt of in the 1930's. She has laid the foundation for an appropriate national policy for the future, for a long-run planning scheme. It is our contention that, should she desire to be master of her economic fate to the greatest possible extent, postwar economic planning should be undertaken by the Dominion Government through a national planning board of competent persons, now, *during the war period.* We feel, very strongly, that plans undertaken only after the war is won are doomed to complete failure, or will be relatively inadequate at best.

Since it is so difficult to deal with future possibilities, to speculate about a world several years hence, it was necessary to proceed with this study on the basis of a great many assumptions. Not all of these can be listed—some may even be wholly unconscious assumptions. Among those that are most significant, the writer would list the following:

(1) We assume that the United Nations will be victorious in this war through outright military defeat of the Axis powers;

(2) We assume that the Second World War, with which we are dealing, will last a further three to five years (i.e. until 1945 at least) before that victory is achieved;

(3) We assume that Canada's contribution in this war will be primarily in the field of production—of war materials, equipment, aircraft, tanks, guns, etc.—rather than in manpower, despite the possibility that she may eventually have one million men under arms;

(4) We assume that there will be no disturbance to the Canadian war effort through the exchange-rate mechanism, i.e. that the rates will be maintained (in relation to the British pound and the American dollar) at just about their present levels;

(5) We assume that there is good reason to plan for the period after the war; that those in power will wish to lay the foundation of a better world; that the people will recognize the role that government may play in solving economic problems such as those of the 1930's.

These are of course, the basic assumptions underlying the whole argument. Naturally, for the postwar period itself, a great many assumptions are made but these will be evident later in this abstract.

Our study, essentially, divides itself into three parts, though we have not so differentiated these sections in the actual dissertation. In the first place, governmental economic controls in Canada have been co-ordinated in a well-rounded anti-inflation program. Discussion of the various aspects of this program—fiscal policy, price policy, and wage policy—during the war period, constitutes an approach to the understanding of the Canadian war economy and the future Canadian peace economy. Secondly, the nature of the impact of war participation upon the productive facilities of the Canadian economy is illustrated through a statistical (trend and cycle) analysis of sixteen basic Canadian economic indicators. The results of the analysis appear in fifty-five charts. Finally, once the wartime adjustments in the economy were made relatively clear, we undertake some speculation about the postwar Canadian economy. The goal we set up for the economy after the war is that of "full employment" of the nation's resources, human and material. But we do not consider that "full employment" is sufficient. Accordingly, we set forth a program of social goals for Canada, goals which include minimum social guarantees for a decent standard of living and health in the postwar period. Basically, however, we are concerned with the attainment of the fundamental goal, the full-employment economy, through governmental economic policies, fiscal policy, price policy, labour policy—including social security.

(A) Canada's Wartime Anti-Inflation Program

Canada's war effort has, in many respects, been truly remarkable. The Dominion Government's co-ordinated program directed toward the prevention of inflation—thus to cut down the cost of the war to some extent, and to avoid postwar collapse—is worthy of special commendation. Not all of its features are praiseworthy in our opinion, but the over-all anti-inflation policy is economically sound and has proved relatively effective so far as can be judged.

At the heart of the program is the Dominion Government's wartime tax program. In September, 1939, at the outbreak of war, the Ministry of Finance contemplated two stages in its fiscal policy viz: (1) an initial stage during which prices would rise, production would expand and unemployed factors of production would be absorbed, and (2) a second stage when the economy had approached the "zone of full employment" at which point a "war finance" program per se could be undertaken. During the first stage few heavy taxes would be levied (or if levied would not be collected until later, i.e. on incomes for the fiscal year 1940-1941), borrowing would be confined to short-term operations with the chartered banks, and "business as usual" would be the general order of the day. For the second period, however, taxes would be increased sharply (in practice, payments would be collected under earlier increased levies for the first time), and large public borrowing operations would be attempted. Simultaneously, the government announced that its two guiding principles in financing the war would be those of (1) taxation upon the ability to pay, and (2) the use of a pay-as-you-go policy, in so far as possible.

These general principles and policies have been followed rather faithfully throughout the war period. The first stage of "war economics" was followed by the stage of "war finance", the coming of which was hastened by the step-up in production following the fall of France in June, 1940. The principal of "ability to pay" has been followed by means of increased direct tax levies and the imposition of new direct taxes. Personal income levies have been raised sharply, particularly for the middle income groups, and exemptions have been lowered. Corporation income taxes have been increased and joined with an excess profits tax which (together) divert a minimum of 40% of all corporation net income to the government and/or a maximum of 18% of such income plus 75% of all profits above those of the base period (1935-1939). Succession duties have been introduced by the Dominion Government for the first time (in 1941). A withdrawal tax (National Defence Tax) abstracts income at the source to the amount of 5% and 7% for married and single persons, respectively, earning more than certain min-

imum incomes. On the other hand, indirect taxes in the form of excise duties have been raised all along the line and new excises have been introduced. The federal sales tax of 8%, however, has not been increased. Although revenues from indirect taxes have increased absolutely, the new importance of direct taxes is such that more than 50% of total tax revenues will come from direct taxes in the fiscal year 1941-1942. This may be compared with the generally regressive nature of the peacetime tax system in which 65-70% of all tax revenues were derived through indirect taxes.

The pay-as-you-go policy has been followed to what we feel is a remarkable extent. Through the three years of war, approximately 65-80% of total expenditures (exclusive of aid-to-Britain) have been covered by total revenues (tax and non-tax). The Dominion Government has thus been forced to borrow funds to meet only 20-35% of its total (war and non-war) expenditures —exclusive of British aid. Nevertheless, the absolute amounts to be borrowed—including provision for aid-to-Britain—have reached nearly $2500 millions in the period September, 1939 to March, 1942. On the other hand, the war savings program is an important element of the anti-inflation program and is highly organized to drain consumer incomes from the market. Every class in the nation is reached by the program.

As early as September 3, 1939, a Wartime Prices and Trade Board was set up to limit increases in the prices of "necessaries of life". This Board functioned for a year and a half as an office of civilian supply, primarily, although the prices of some strategic materials were fixed, either temporarily or permanently. Wholesale prices rose gradually through 1939 and 1940 but the pace of the increase was stepped up in the spring of 1941. The index of wholesale prices rose about 29% from September, 1939 to October, 1941, but about 40% of this increase came after March, 1941. The Board seemed relatively powerless in the face of this pressure (although its own authority had been strengthened), and thus in October, 1941, the Prime Minister announced that all retail prices would be fixed in over-all fashion at the levels prevailing from September 15 to October 11, 1941.

At the same time, the government froze all basic wage rates at the then-prevailing levels. Wages had increased rapidly through 1939 and 1940 until, at the end of the latter year, they were at the highest levels in history. Accordingly, the Dominion Government attempted to halt the rise in wages through P. C. 7440, an administrative Order-in-Council of December, 1940. Through this order it was suggested that the highest wage rates prevailing between 1926 and 1929, or those prevailing on December 16, 1940—whichever were higher—were fair and reasonable. For workers in war industries (i.e. under the jurisdiction of the Industrial Disputes Investigation Act) such basic wage rates were not to be increased but adjustments were to be made by cash bonuses paid for every 5% increase in the cost of living index. This policy was suggested for all other non-war industries, though it was not made compulsory. In October, 1941, the Prime Minister announced that this policy would be extended to all industries (in effect under P. C. 8253 in November, 1941) and thus basic wage rates were frozen at the prevailing levels of the fall of 1941, along with retail prices. The bonus system was revised at that time and quarterly adjustments were instituted. During October and November, 1941, the control system was extended to salaries, and rents (which had previously been controlled only in special war-production areas).

In summary, Canada's anti-inflation policy involves a co-ordinated program of control over every aspect of the national income, over every aspect of the competitive capitalistic price economy. The program covers prices, wages, rents, salaries, profits, investment income, and savings. Price control involves not merely direct price control but some attempt to maintain supply (less possible now than formerly) and the draining off of consumer buying power to keep down demand. The wage controls, however, cannot prevent pressure on the price ceilings emanating from rather general over-time pay and increasing employment and spendable income. At the same time, they seem to be based upon the fallacious notion that every wage increase implies a corresponding increase in labour cost per unit of product. The war savings program, obviously, aids enormously in the over-all effort to cut down the demand for declining supplies of consumers' goods.

Although it is too early to judge as yet, the thesis concludes that the anti-inflation program will be relatively successful. Through March, 1942, wholesale prices rose by less than 1%. The cost of living index was only slightly higher in March, 1942, than in October, 1941. The prospect of a successful price control program seems bright. The thesis concludes, however, that the "thin wedge of inflation" may come from rising agricultural prices (many of which are exempt from the ceilings) and/or from rising prices in the United States. The latter possibility seems less important now that the United States has adopted the Canadian plan of direct price control (without wage-freezing, however). Adoption of the plan by the United States came after the conclusion of the thesis. Agricultural prices, nevertheless, present a serious problem and will bear watching in the months to come—prices of meats and dairy products rose sharply to the fall of 1941 but have advanced very little since the adoption of the ceilings. On the other hand, the prices of field products, previously quite depressed, have just begun to rise seriously.

(B) Wartime Adjustments in Canadian Economic Activity

The thesis proceeds upon the assumption that a comprehensive picture of the movements of Canadian economic series during the Second World War should reveal the outstanding readjustments necessary in the postwar period. To a great extent, though not entirely, the necessary postwar readjustments in a capitalistic economy are almost exactly the opposite of the wartime adjustments. On the basis of war production, Canadian economic activity has recovered from the sharp recession of 1938 and early 1939 and has expanded enormously throughout the war period. Peak efforts to date were reached in the early fall of 1941, in most phases of economic activity. However, we have no criterion for judging what the Canadian economy can do in the way of production. The level of activity is now well above the peak year of the so-called golden age (1922-1929).

We examine sixteen basic indicators of economic activity in Canada. The method is that of trend and cycle analysis and the results are usually pictured graphically in three ways. In the first place, annual trends are calculated and drawn for the period 1919-1937 (with the exception of industrial employment—1921-1938). Secondly, the performance of the indexes throughout the

war period is illustrated. Finally, the annual trends are broken down into monthly trends. These latter, when divided into actual monthly values, give a cycle percentage, or relative deviations from the monthly trends (for the period 1935-1942). Both the annual and monthly trends are extrapolated through 1942. The results of our analysis may be grasped from the accompanying table. It is clear that two trends show negative slopes and hence are relatively useless for purposes of wartime comparison (i.e. extrapolation). One trend, that for imports, is almost perfectly horizontal. The steepest trends were those for electric power, newsprint, and mineral production. The percentage increase above trend is shown for the peak fall month of 1941. Although this is not a fair picture of the average increase of the year 1941 over the prewar period, it is chosen to give some indication of the potentialities for 1942 and later years. In some cases the index has declined from the peak fall (or summer) month, in others the index has increased steadily through the spring of 1942. Most indexes, which did fall, rose again at the end of 1941 and through the early months of 1942.

TABLE I. Results of the Trend and Cycle Analysis.

Name of Index	Slope of Trend 1919-1937 (in abstract units)	Percentage Increase from August, 1939 to the peak fall month of 1941	Percentage above or below (—) monthly trend	
			August, 1939	Peak fall or summer month 1941
Physical Volume of Business	1.9	43.0	8.0	49.2
Industrial Production	2.2	52.0	8.1	57.4
Producers' Goods	1.4	43.0	15.7	60.9
Consumers' Goods	2.5	33.0	— 1.7	25.7
Volume of Manufacturing	1.9	70.0	2.6	69.0
Mineral Production	5.9	18.5	35.3	50.8
Iron and Steel	0.6	202.0	— 5.3	181.9
Newsprint Production	7.1	32.5	—20.0	— 2.0
Electric Power	10.0	25.0	3.4	18.1
Construction	—1.8	19.0	— 2.5	59.3
Carloadings	—0.8	29.5	6.3	43.1
Distribution	1.0	24.0	7.5	31.5
Industrial Employment (seasonally adjusted)	0.4	38.0	6.4	44.5
Imports	0.0005	70.0	2.7	75.1
Exports	1.1	71.5	26.4	112.2
Wheat Marketings	1.7	70.0	.....	.....

Special attention is paid in the thesis to the relationship between the production of producers' goods and the production of consumers' goods. In the ordinary peacetime economy, when the prevailing phase of the business cycle is neither great prosperity or deep depression—assuming, that is, a state of economic "normalcy" or relative "equilibrium", there is some sort of a balance between the production of producers' and consumers' goods. On the other hand, during certain phases of the business cycle, the proportion of resources devoted to the production of one category as opposed to the other is "too great", the balance between them is upset, and certain cyclical disturbances may be consequent upon this lack of balance.

In time of war the tremendous increase in the demands for all types of goods together with the demand for goods not generally produced in peacetime, i.e. munitions of all sorts, will sooner or later induce a significantly great increase in the quantity of capital employed in production. During the initial stage of a war finance program like that undertaken in Canada in 1939-1940 it is possible to increase the production of both consumers' and producers' goods by working existing plant and equipment more nearly to capacity, i.e. by bringing unused resources into employment. There was, at first, little pressure to cut down the production of consumers' goods, and, as employment and monetary incomes increased, consumers' goods industries received a considerable stimulus. The defeats suffered by the Allied nations together with the basic nature of modern mechanized warfaremade it inevitable that the supplies of both consumers' and producers goods could not be maintained. Modern warfare based upon machine combat must induce tremendous demands for the products of the so-called "heavy industries". Moreover, an increasing proportion of the consumers' goods produced must be diverted to the armed forces of the nation and, consequently, the supplies of consumers' goods which are available for civilian consumption will be more or less rapidly curtailed. In such a time of heavy pressure upon the economy, it becomes necessary to begin conversion of existing plant and equipment, wherever possible, from the production of durable and non-durable consumers' goods or less essential producers' goods to the production of war materials.

The ultimate result of the processes we are describing are, simply, a tremendous expansion in the production of consumers' goods and a levelling-off or actual decline in the production of consumers' goods. In this general process of expansion on one hand and restriction on the other, we find the essence of the adjustment from a peacetime to a wartime economy and the basic problem for the readjustment period. This latter process will involve readjusting the economy toward the production of consumers' durable and non-durable goods primarily, with secondary emphasis upon the production of durable producers' goods.

Throughout the war period, the changes in the relative production of producers' and consumers' goods have conformed to out theoretical expectation. Consumers' goods production received a considerable stimulus during the first phase of national fiscal policy and rose to a point 10% above the monthly "normal" line. It declined through much of 1940, however, and even fell below the trend line in the summer of that year. A secondary stimulus from expanding employment, incomes, and governmental demands for all sorts of goods (after June, 1940) raised the index in late 1940 and through 1941 to its highest level (of the period 1935-1942) during the fall of 1941—a level 25% above the expected trend value in September, 1941. This level was attained for only one month, however, and the general wartime level has been less than 10% above the trend line. Moreover, the index conceals the important fact that a significant proportion of this production is not available for public consumption.

On the other hand, the production of producers' goods was relatively slow to react to the stimulus of war participation. It was not until the early part of 1940 that the demand for new capacity in industry was felt to a significant extent. When the war demands became much more insistent during the second period of Canada's war effort (after June, 1940), the index of producers' goods production rose by a series of huge jumps to a position at least 35% above the monthly "normal" trend estimates, and for most months since June, 1940, the index has been considerably above that level. The peak production in

the year 1940 raised the index to a point 55% above the trend line. With the general step-up in Canadian economic activity in the summer and early fall of 1941, the index rose to a point more than 60% above the reference line. It seems obvious that the demands of war have meant a tremendous expansion in the production of producers' goods as opposed to the production of consumers' goods. During the fiscal year 1942-1943 we may expect continuing increases in the production of producers' goods with continued levelling in the production of consumers' goods or an actual decline.

(C) Postwar Problems and Policies

It is too early to hazard a guess as to the nature of the world which a victorious United Nations would like to see in the postwar period. (It will doubtless be too early for several years after the conclusion of hostilities). In the postwar period, however, we expect the "temper of the people" to be such that the state will play an ever-increasing role in the processes of the economy. We expect the citizens of the victorious and democratic allied nations to demand that the state underwrite employment; that the state maintain a condition of "full employment" of resources, material and human; and that the state guarantee a minimum for all citizens—a minimum of work, education, food, clothing, housing, health, and nutrition. Moreover, we expect the people to demand that the state take the initiative in these matters, that it not leave their performance to private enterprise since by and large private enterprise cannot and will not provide for them. In short, we expect a forthright effort on the part of democratic governments, to directly consciously the course of their economies toward the attainment of these goals—to plan, in other words, to a far greater degree than hitherto. Finally, in consideration of these expectations, we assume that a good deal of planning is possible within the framework of the capitalistic free-enterprise economy, i.e. that there is a middle ground between outright socialism or over-all planning and the laissez-faire or only slightly controlled economy.

We expect the Canadian people to ask their governments (primarily the Dominion Government) for a more realistic ap-

proach to the economic problems of mass unemployment, and to economic insecurity and its solution—social security. We expect the fetish of the sanctity of immutable "economic laws" to be dispelled. We expect a far greater degree of government control over economic life than was the case during the period 1930-39. We do not expect that any Canadian government can ever again afford to treat the problem of unemployment as a temporary one, to stand by and hope that "natural" cyclical forces will drag the economy out of the depths of cyclical depressions.

Accordingly, we reach the following conclusions in regard to Canada's postwar future:

(I) Postwar International Considerations

(1) That Canada's international position requires that she play an active role in any program of postwar world reconstruction;

(2) That a postwar depression is not inevitable, and that as far as Canada is concerned, a postwar boom may well be the product of a great increase in international trade;

(3) That one of the most difficult of Canada's international problems in the long run will be that of finding postwar markets—long-range planning is suggested;

(4) That Canada's most likely sources of supplies and new markets in the postwar period are in Central and South America and in the United States;

(5) That, in any scheme to feed Europe and to reconstruct her, Canada will hardly be in the position to "give" goods, or to "lend-lease" them; hence she must not be adverse to accepting payment for exports in imported goods, especially raw materials;

(6) That Canada must therefore participate in any scheme for increasing international trade through the reduction of tariffs, the removal of quotas and other trade restrictions, and the removal of immigration barriers;

(7) That, in any plan to pool raw materials internationally in the postwar world, Canada must take her place through continuous negotiations with the nations she has helped during the war;

(8) That Canada's so-called "wheat asset" has been greatly overrated considering a possible shift in the British demand in the postwar period and the tremendous world stocks of wheat;

(9) That the internal problems involved in a lowering of tariff barriers can be solved—through a program of "full employment" stimulating consumption of domestic commodities, through a system of subsidies to now-protected industries, and through added consumption on the part of Canadian export producers.

(II) Postwar Public Finance

(1) That a serious postwar deflation is not inevitable if national governments make a forthright effort to plan adequately for all postwar contingencies that can be foreseen;

(2) That national governments must never again stand by and expect the economies of their respective states to adjust themselves "automatically" to peacetime production;

(3) That the most certain way to postwar disaster would be the *rapid and complete* relaxation of government controls over prices, wages, salaries, rents, and profits in the postwar period, rapid reduction in taxes, and repayment of the national debt;

(4) That an adequate national postwar program for Canada would have two basic elements:

(A) The state should underwrite a condition of full employment for Canada's human resources—through:

1. A widespread program of deficit financing, public works, intelligent exploitation of material resources, and a state-directed program of peacetime readjustment from wartime conditions;

2. A credit expansion managed through the central bank and the chartered banks to maintain buying power and employment;

(B) The state should promise full employment in conjunction with minimum social guarantees—food (of adequate nutritional value), clothing, housing, health services, and education; with social insurance to meet the problem of economic insecurity; and with adequate standards for the protection of labour;

(5) That the war has meant and will mean specific gains for the Canadian economy in the direction of more appropriate utilization of resources in the period after the war, viz:

(A) Canadian productive resources are more highly developed than at any time in history;

(B) The employed working force is greater than it has ever been, and a larger proportion of that force is being trained to perform skilled or partially-skilled jobs;

(C) The capacity of Canada's productive system has been expanded tremendously;

(6) That there will be a tremendous backlog of demand for conconsumers' goods (particularly durable consumers' goods) in the postwar period. This, together with investment consequent upon the wartime decline in residential housing construction and the replacement and maintenance of all other capital equipment, will provide a substantial impetus to private investment;

(7) That Canada should rely upon private enterprise and the price system, basically, to maintain a continuous and sustained demand in the postwar period. However, since in the past private enterprise has not been able to insure this over long periods of time, the government must do its part to sustain demand and maintain full employment. "Private industry and Government together must act to maintain and increase output and income sufficiently to provide substantially full employment." (A. H. Hansen, "After the War—Full Employment", Washington, National Resources Planning Board, January, 1942);

(8) That this may involve a two-fold planning program for the Canadian government viz:

(A) One phase will be directed toward the effective readjustment from wartime to peacetime production;

(B) A second phase of the program will be directed toward the planning of public works should private enterprise fail to maintain the national income at full employment levels;

(9) That it will be far easier to maintain Canada's national income at levels of $5-$6 billions, and perhaps increase it gradually, than it will be to regain fairly adequate levels if national income is again allowed to fall to depression levels of about $3 billions;

(10) That the government should, wherever possible, make arrangements to transfer to private enterprisers the plant and equipment which has been financed and owned by the Dominion for the production of war materials. Some of this plant and equipment will prove of value for postwar production of consumable goods and may be leased or sold to private interests;

(11) That private enterprise cannot expect to effect the readjustment to peacetime conditions without a good deal of planning of its own. Such planning must be co-ordinated with government planning;

(12) That the belief that the banking system, rather than government, must be relied upon completely and inevitably to support the private enterprise system ought to go by the boards. In short, a Canadian corporation on the order of the American Reconstruction Finance Corporation would do much to aid in the readjustment of the Canadian economy to peacetime production;

(13) That postwar planning of every sort ought to be co-ordinated within one specific government Department which might be called "The Department of National Postwar Services";

(14) That there is a two-fold purpose in whatever course of action is undertaken in the period after the war:

(A) There is the problem of averting a postwar deflation and of inspiring a postwar expension;

(B) And there is the further problem of controlling that expansion once it begins a strong development;

(15) That the logical field of government participation in the maintenance of full employment in the postwar period is in the field of "intensive investment", i.e. public works, including slum clearance, housing projects, urban and rural rehabilitation of all sorts. It is obvious that such participation will involve a great deal of planning *during the war period* when such projects may be classified on the basis of cost, extent of employment afforded, nature of labour required, and, particularly, possibility of postponement. A great deal of co-ordination and co-operation is required from local and provincial governments if any nation-wide scheme of public expenditure is attempted;

(16) That there will be few serious difficulties in financing such a program if the national income can be maintained at full employment levels of $5-$6 billions, or more;

(17) That adequate postwar planning on the part of the Dominion Government will imply a constitutional amendment to give the Dominion jurisdiction over the problem of unemployment — as recommended in the Sirois Report — in order that governmental plans throughout the economy may be co-ordinated. This amendment ought to be obtained during the war as a pre-requisite for proper planning;

(18) That the public revenues of a full-employment Canadian economy would be sufficient to service a public federal debt of more than $10 billions and leave sufficient funds for ordinary expenditures; and that we cannot tolerate in the postwar period any haste in repaying the national debt;

(19) That a hypothetical federal budget in a "typical postwar year" may show total expenditures of $800-$900 millions. We are here assuming increased expenditures on debt service (on a debt of $10 billions by the end of the war), on social security and social insurance, on military pensions and after-care, on defence (building up stocks of munitions, equipment, aircraft etc.), and on public works. We are, at the same time, assuming decreased expenditures on the so-called "special expenditures", and on government-owned enterprises in a full-employment economy.

(20) That in adapting the Canadian revenue system to meet a budget of $800-$900 millions, the excess profits tax and the National Defence tax should be eliminated entirely (as a stimulus to production and consumption respectively), but it would seem advisable to retain the basic features of the progressive tax structure with a broadened base and to emphasize the individual income tax as a revenue producer;

(A) Assuming a full-employment economy and the removal of anti-inflation pressure in the immediate postwar period we may expect some increases in revenues over the 1941-1942 estimates in the case of customs duties, the sales tax, and other excise duties —even if customs duties and excises (other than the sales tax) are reduced somewhat;

(B) Income tax levies ought to be retained at levels above those of the pre-war period, perhaps at those of the second budget, but below those of the levels of the third war budget, i.e. assuming abandonment of the excess profits tax. Succession duties should be increased sharply;

(C) Estimates of revenues from indirect (or consumption) taxes range from $400-$500 millions; and from direct taxes $250-$350 millions. Hence the hypothetical postwar budget may not balance if expenditures are as great as we have assumed. On the other hand it will balance if the full-employment economy is attained and maintained without a great deal of government expenditure on public works;

(21) That the key to the solution of the basic postwar problems may lie in the federal power to tax (or refrain from taxing). The problem is that of balancing consumption and savings. In the avoidance of postwar deflation, a let-up on consumption taxes may aid in maintaining buying power; in the later period, to avoid a boom on the order of 1927-1929, the power to tax may be used effectively to cut down

buying power. In the future we expect tax policy to be integrated with central bank policy in the control of economic fluctuations;

(22) That the national income should and can be maintained at levels of $5-$6 billions assuming a full-employment economy, with an expansionary government economic policy and an employed labour force of more than four million workers.

(III) Postwar Price Levels and Controls

(1) That a full-employment economy is not possible at the prices which prevailed (and the general price levels) in August, 1939;

(2) That price control per se is essential in the postwar period, (particularly to prevent a postwar inflation) but that prices can be kept up at reasonably high levels only through the maintenance of consumer buying power. Some prices must come down and the incentives and deterrents of high and low prices will operate—the goal being the maintenance of a relatively great amount of price flexibility in the attainment of the full-employment economy;

(3) That the general price level capable of sustaining a full-employment economy ought to be attained. The Federal Government through its wartime economic control boards is the only Canadian authority capable of ensuring that that price level shall prevail—for it controls the monetary system, it is the greatest of the taxing authorities, it is the authority with the strongest credit potentiality, and it is the only governmental authority with any adequate over-all picture of the Canadian economy;

(4) That it will be extremely difficult to attain and maintain an appropriate price level in view of Canada's international affiliations, particularly with Great Britain and the United States. Continuing economic negotiation is suggested;

(5) That national economic goals should properly be those of increasing production and declining prices once the full-employment economy has been attained.

(IV) Postwar Labour Problems and Social Security

(1) That, basically, labour's dissatisfaction with the Canadian war effort rests upon the fact that labour has not been taken into partnership in the conduct of the war;

(2) That the basic principles of the government's war labour policy—as outlined in P.C. 2685 of June, 1940—are exemplary, and may prove to be the foundation for an adequate long-run labour policy in Canada. Labour has been basic-

ally concerned, however, with the reluctance of the Government to back up its general policies, as enunciated, with strong administration;

(3) That Canada's postwar goal should be the provision of minimum guarantees for health and living standards for all Canadians. Exclusive of a legislative program of social security, we may recommend the following:

(A) A system of family allowances in cash or food stamps for dependent children in families with annual income at or below some recognized minimum health-and-decency standard;

(B) A system of food subsidies—preferably in stamps directed against agricultural surpluses—for needy families, particularly where there are young children or pregnant mothers;

(C) A co-ordinated program of health education beginning with more adequate teaching in the public schools, free medical, dental, and optical care for members of families in the under-par levels; and adequate pre-natal care (Canada ranks 22nd among 26 leading nations in maternal death rate);

(D) A minimum guarantee of adequate clothing and housing for all citizens through minimum clothing allowances and governmentally-built or controlled low-cost housing projects;

(E) Dependents' allowances in certain cases where the dependent is a burden whose care undermines the general provision for other members of the family and where the dependent would normally come under provincial or federal welfare jurisdiction, but at greater total public cost;

(4) That the two basic criticisms of Canada's wartime wages policy

(A) That wage freezing is not necessary to prevent inflation;

(B) That the wartime wages policy promises little incentive for wartime production and few safeguards for the postwar period, can be met rather easily through a system of "deferred pay" or "compulsory savings". Moreover, through the National Defense Tax the Dominion has all the machinery necessary for a system of "deferred pay" or "compulsory savings";

(5) That a system of "deferred pay" or "compulsory savings" and the promulgation of basic social goals such as were outlined would go far in sustaining demand (purchasing power) in the postwar period, and in providing wartime incentives for labour. At one and the same time the Dominion Government could promote the war effort and assure the working population of the nation that its health, productivity, and happiness were the postwar concern of the government;

(6) That a modified form of deferred pay might be fitted into the present wartime wages policy of the Dominion through payment of the cost-of-living bonus and all overtime earnings in non-negotiable war savings stamps and certificates. If the plan for "deferred bonuses" would work hardships on married persons with children, part of the bonus could be paid in cash and the rest deferred.

(A) The deferred bonuses would be credited to the accounts of individuals under the Unemployment Insurance program. To these accounts might be added 10% of all payments of National Defense Tax for all persons earning annual incomes less than adequate for the provision of a minimum "health-and-decency standard of living". The cost to the Dominion would be slight;

(B) These "deferred payments" would implement, to some extent, the minimum social guarantees and withdrawals might be restricted to special "social expenditures", e.g. the financing of a childbirth, medical bills, purchase of glasses, travelling expenses to new jobs, etc.;

(7) That the Dominion Government, in the postwar period, should launch a forthright attack upon the whole problem of economic insecurity through a rather general acceptance of the principles of Social Security. Old-age pensions should be increased and liberalized; the unemployment insurance plan might be extended and the contributions and benefits increased; and a program of health insurance is both necessary and possible;

(8) That it is the proper time now, during the war effort, to enlist labour's participation in postwar Canadian readjustment policies;

(9) That a full-employment Canadian economy in the postwar period will require a working force of at least four millions, and can provide for a good deal more;

(10) That the problem of shifting labour to peacetime employment will be relatively less difficult if it is directed consciously by the Dominion Government through the Unemployment Insurance Commission and its regional employment offices;

(11) That there are three basic problems in this readjustment

(A) The problem of readjusting the supply of labour to the demand for labour; i.e. the problem of shifting the labour force to peacetime employment, including especially the problem of dealing with the several hundred thousand workers in munitions plants;

(B) The problem of womanpower, of what to do with the several hundred thousand women workers who will probably be in employment at the end of the war;

(C) The problem of rehabilitating the men in the armed services, and of directing them into employment;

(12) That the great majority of potential job opportunities, so far as can be estimated, for the postwar period should be registered and classified by the Unemployment Insurance Commission along with the names and skills of the potential job-holders. In this connection, the employment service should work out minute classifications of labour skills toward a facile readjustment to peacetime employment, in view of the close relationship between many wartime operations and specific peacetime tasks, and the relatively short training period required in many cases;

(13) That the Government should not shut down its munitions plants at once, or even relatively rapidly, in the postwar period, in view of the possibility of tremendous temporary or "conversion" unemployment, while war plants are being converted to peacetime production. There is the further danger that the Unemployment Insurance Fund may be drained seriously. Moreover, there may be some reason to build up stocks of essential war materials and equipment in the postwar period;

(14) That it may be temporarily necessary to provide every incentive for the reduction of the total labour supply—through retirement of older persons, entrance of younger persons into schools, and retirement of women. Employment of women may have to be restricted, for a time, to those who are self-supporting, or have dependents;

(15) That governmental rehabilitation programs are no substitute for the sort of over-all planning we are suggesting, for the simple reason that such plans cannot create job-opportunities where none exist;

(16) That the government could do much to stimulate the war effort by laying down the outline and essentials of an adequate postwar labour policy. The administrative machinery for the creation of a long-run labour policy exists in the form of the National War Labour Board which has tremendous potential powers;

(A) The Government should reconstitute the Board so that it does not merely represent employers and employees but will, at the same time, act as the agency laying the foundation for long-run labour policy. Thus far, the Board has interpreted its functions quite narrowly in relation to the wage-freezing policy. Such an interpretation is unjustifiable;

(B) That a relatively narrow interpretation of the Order (P.C. 8253) under which the Board operates means freezing the Canadian wage structure of November, 1941. We find no justification for such action, considering the imperfect nature of the wage structure at any specific time;

(C) That it is possible for the Board to lay down many of the essentials of an adequate long-run labour policy for Canada, without exceeding its powers. For by virtue of its jurisdiction over P.C.2685 the Board may accept the responsibility for the broad questions of labour policy such as industrial unrest, collective bargaining, and the adjustment of labour demand and supply;

(D) Finally, the Board may serve to break down the maladjustments in the present Canadian wage structure by readjusting the differentials, by raising the wages of depressed areas, and by raising the wages of depressed groups (wherever possible).

VITA

Albert Rose was born in Toronto, Canada, on October 17, 1917. His elementary schooling and undergraduate college training were undertaken in Toronto. Upon graduation from the Riverdale Collegiate Institute in 1935 he was awarded the Fourth Alumni Scholarship to University College, University of Toronto. During the next four years he was enrolled in the Honors course in Political Science and Economics from which he was graduated with the degree of Bachelor of Arts in June, 1939. As an undergraduate he was awarded such scholarships in Political Economy as the First Alexander Mackenzie (second year), the Second Alexander Mackenzie (third year), the Mary Keenan Award, the Second Maurice Cody, and the Ramsay Scholarship. He was graduated as gold medallist receiving the H. A. Breuls Gold Medal in Political Economy (University College). Since September, 1939, he has held the rank of Fellow in Economics, at the University of Illinois. In June, 1940, he was awarded the degree of Master of Arts.